

responses were consistent with the views of industry leaders, and supported the results of both the telephone coincidentals and the statistical models. Based on 1,821 telephone interviews among a representative sample of cable television subscribers in four NBA markets, who identified themselves as NBA viewers, 14 percent watch only the local team when a WGN or WTBS game is on at the same time -- that is, just 14 percent said that their viewing is unaffected by the presence of the superstation game. By contrast, most viewers reported that they either always switch back and forth between the two NBA games (24 percent) or sometimes watch only one, and sometimes switch back and forth (53 percent).

The Chilton research also confirms the views expressed in virtually every industry interview that the problem of saturation of telecasts is a major problem in today's sports television marketplace. Although during the 1990-91 regular season an average of 31 telecasts of NBA games per month were available in the four markets in which Chilton interviews were conducted (Atlanta, Dallas, Denver, Detroit), the median number of games viewed per month was only four.

In summary, it is remarkable how consistent the results are from the four different studies. Superstation telecasts have a significant negative effect on the ratings of TNT and local broadcast and cable telecasts. Viewers typically have many more NBA telecasts available to them than they choose to watch. In addition, the recent re-emergence of superstation carriage of NBA games adds to the trend towards fragmentation and saturation. Superstation telecasts render less valuable each game carried by telecasts licensed by the NBA and diminish the value and attractiveness of the NBA's overall television product in the opinions of television and advertising industry experts and thus threaten the long term ability of the League to maintain the output of its televised games.

SECTION I, NIELSEN TELEPHONE COINCIDENTALS

The total number of "dialings" completed per coincidental was 2,000; final in-tab sample sizes were as follows:

Date	Market	(n =)
1/14	Atlanta	1,808
1/14	Detroit	1,786
2/14	Denver	1,628
2/14	Detroit	1,585
2/16	Atlanta	1,629
2/23	Atlanta	1,634
2/23	Dallas	1,597
3/8	Denver	1,612
3/16	Orlando	1,607
3/23	Dallas	1,514
3/25	Detroit	1,711
3/28	Houston	1,522
4/9	Indiana	1,684
4/12	Indiana	1,701
4/12	Washington	1,568

Differences between dialings versus actual sample sizes are due to nonqualified homes (i.e., business numbers, noncable households, incorrect cable system, etc.).

The above sample sizes are substantially larger, and therefore statistically more reliable, than the metered sample base that Nielsen uses to determine ratings among cable homes in these markets.

Key Findings

Data from the telephone coincidentals are summarized on Table I-1. Key findings are summarized below.

**TABLE I-1. TELEPHONE COINCIDENTAL RESULTS,
JANUARY THROUGH APRIL 1991**

Market/ Date	Rating (Percent)				Percent of NBA Viewing			
	Local Station	WGN	TBS	Total NBA	Local Station	Super- station	WGN	TBS
<u>Detroit</u>								
1/14	16.4	1.0	0.6 ¹	17.9 ²	91.6	8.4	5.6	2.8
2/14	13.4	1.1	0.9	15.4	87.0	12.9	7.1	5.8
3/25	7.7	1.6	NA	9.3	82.8	17.2	17.2	NA
<u>Houston</u>								
3/28	11.0	0.1	1.5	12.6	87.3	12.7	0.8	11.9
<u>Indiana</u>								
4/9	8.5	2.9	NA	11.4	74.6	25.4	25.4	NA
4/12	5.2	3.2	NA	8.4	61.9	38.1	38.1	NA
<u>Atlanta</u>								
1/14	6.8	1.2	NA ³	8.0	85.0	15.0	15.0	NA ³
2/16	3.3	0.3	NA ³	3.6	91.7	8.3	8.3	NA ³
2/23 ^{1,5}	4.1	0.8	NA ³	4.9	83.7	16.3	16.3	NA ³
<u>Denver</u>								
2/14	4.1	1.2	NA	5.3	77.4	22.6	22.6	NA
3/8	2.9	1.2	NA	4.1	70.7	29.3	29.3	NA
<u>Orlando</u>								
3/16	2.7	0.4	1.4 ¹	3.3 ⁴	81.8	18.2	12.1	6.1
<u>Washington</u>								
4/12	2.0	1.9	NA	3.9	51.3	48.7	48.7	NA
<u>Dallas</u>								
2/23 ⁵	1.8	0.7	0.8	3.3	54.5	45.4	21.2	24.2
3/23	2.4	0.5	NA	2.9	82.8	17.2	17.2	NA
<u>Average</u>	-	-	-	-	77.6	22.4	-	-

¹ TBS rating is only for the time period the TBS game overlapped with the other two games.

² TBS rating has been adjusted in the total NBA viewership to account for the fact the game was on during 76 percent of the time period measured.

³ TBS is WTBS, the local station in Atlanta; rating is assigned to local station viewing.

⁴ TBS rating has been adjusted in the total NBA viewership to account for the fact the game was on during 12 percent of the time period measured.

⁵ February 23 is the day the ground war in the Persian Gulf broke out, possibly influencing viewing levels.

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During January through April, 1991 when one or more superstation NBA games were aired with at least a portion of the game overlapping an NBA game broadcast on a local station, superstation viewing constituted anywhere from eight to 49 percent of total NBA viewing. Findings by market were as follows:

- In Detroit, the rating achieved by WGN and TBS collectively ranged from eight to 17 percent of total NBA viewing; WGN's share was anywhere from six to 17 percent, and TBS was three to six percent.
- In Houston, WGN and TBS collectively achieved 13 percent of total NBA viewership; the majority of superstation viewing was of TBS, which aired the identical game as the local station.
- WGN's rating was highest in Indiana, garnering 2.9 and 3.2 ratings for the two games measured in April; similarly, the share of NBA viewing achieved by WGN was 25 to 38 percent.
- In Atlanta, WGN's share of NBA viewing ranged from eight to 16 percent of total NBA viewing.
- The superstation share of total NBA viewing in Denver with respect to two WGN telecasts was 23 to 29 percent.
- In Orlando, WGN and TBS collectively achieved 18 percent of total NBA viewing; WGN represented 12 percent and TBS 6 percent.

- WGN achieved the highest share of NBA viewing in Washington, at 49 percent.
- In Dallas, the level of NBA viewership achieved by the superstations varied between the two games measured -- from 45 percent in February down to 17 percent in March. The February game shown on TBS was the identical game as the game shown by the local station.
- Overall, total superstation viewing over the 15 coincidentals averaged 22.4 percent of total NBA viewing at times when teams were being televised by local broadcasters.

SECTION II. STATISTICAL IMPACT MODEL

The following section provides a summary of Bortz & Company's statistical impact analysis.

Objective and Methodology

Bortz & Company performed an analysis of ratings data from the 1989-90 and 1991-92 seasons. Its objective was to measure statistically what effect, if any, a superstation telecast had on the ratings of another telecast of an NBA game when the superstation telecast is available in the same market and overlaps, at least to some degree, the other telecast of an NBA game.

Three models were developed to examine the impact of:

- superstation telecasts on local over-the-air ("OTA") broadcasts (the "OTA model");
- superstation telecasts on local telecasts carried on a regional cable sports network (the "cable model"); and
- WGN telecasts on TNT telecasts in the local market (the "TNT model") for 1989-90. WTBS telecasts in 1989-90 did not overlap TNT telecasts.

Nielsen prepared special studies for the NBA drawn from its Nielsen Station Index database. Viewing data for the 1989-90 and 1991-92 seasons in NBA markets were gathered from cable households because only cable households are able to

receive superstation telecasts (outside the station's home market). It is therefore only within these households that impacts can occur. Nielsen and other sources provided WGN and regional sports network penetration rates (the percentage of cable households receiving a network). TNT penetration rates were obtained from TNT. Certain other data were prepared by Bortz & Company from the NBA Master Television Schedule and other NBA data.

A number of factors can affect the ratings of a local telecast. In trying to isolate the impact of any one variable (e.g., an overlapping superstation game), the

- ratings of the television program in the half hour preceding the game on the same station or cable network;
- for the New York and Los Angeles markets, variables to control for two local teams being on television the same day;
- if there is an overlapping superstation game, the amount of the overlap (varying from zero -- no overlap, to one -- a complete overlap);
- the penetration in the local market of the superstation carrying the overlapping superstation game;
- if there is an overlapping TNT game, the amount of overlap;
- the penetration in the local market of TNT; and
- whether or not there was a TNT double-header that day.

In all, 33 to 41 variables were used, depending on the model.

The variables just listed are referred to as the "independent variables". The dependent variable was the local OTA rating for the OTA model, the rating of the local cable telecast for the cable model, and the TNT rating in the local market for the TNT model. As noted before, all ratings apply to cable households only.

The "impact variables" in these models are those independent variables directly associated with the presence and amount of an overlapping superstation telecast. The impact variables and their coefficients provide a measure of the change in rating of a local OTA broadcast, local cable or TNT game solely due to an overlapping superstation telecast controlling for all other factors listed above. It does not

The OTA Model Results

In the OTA model, the dependent variable is the rating within cable households of a local telecast on a broadcast station. A total of 581 observations were included in the 1989-90 model. In 291 of these observations, some overlap existed with another NBA telecast. In the 1991-92 model 543 observations were included, with overlap for 309 observations.

Both the 1989-90 and 1991-92 seasons yielded results that are highly significant statistically with regard to superstition impact across the markets observed. The way in which the magnitude of impact can best be illustrated is by running a "simulation". This is done by comparing the estimated rating with and without an overlapping telecast.

Consider a 1989-90 game where the model estimates a rating with no overlap of 6.2 in cable homes (6.2 is the average "OTA" rating actually observed in 1989-90 in the data used in the model for non-overlap games). When a superstition game completely overlaps the local game in a market where the superstition is available to all cable households, the estimated rating is reduced to 5.64, a nine percent reduction from what would have been achieved had there been no overlap. Other results of the model include: (1) for less overlap, the impact would be correspondingly less; (2) for more highly rated games, the estimated percentage impact is less; and (3) for lower viewing levels, the estimated percentage impact is more. (This result also applies to the cable and TNT models.) For example, an 11 percent reduction is estimated for a telecast that would have been estimated to have a four rating with no superstition overlap.

Similar results were found using the 1991-92 model. Using the average OTA rating in 1991-92 of 7.0 (without overlap), the model estimates a rating of 6.52 when a superstation telecast completely overlaps the OTA telecast. This is a seven percent reduction in rating.

The Cable Model

In the cable model, the dependent variable is rating within cable households of a local telecast on a regional sports network. A total of 444 observations were included in the 1989-90 model. In 189 of those observations, some overlap with another NBA telecast occurred. For the 1991-92 model, 504 observations were included, 299 with overlap.

Given that cable ratings are much lower on average than broadcast ratings, it was expected that ratings changes for cablecasts would be correspondingly smaller in magnitude (but not necessarily in percentage) than in the broadcast model. Given measurement error, changes in ratings therefore could be more difficult to detect statistically. Even so, both the 1989-90 and 1991-92 models yielded results of statistical significance across the markets observed with the percentage impact similar to that found in the OTA model.

Running a simulation, the impact on ratings in 1989-90 of a fully overlapping superstation telecast on a local cable telecast is estimated to be a seven percent ratings reduction for the local telecast that would have had an average 3.6 rating (the average for local cable games with no overlap) without a rival game. In 1991-92, the average local cable telecast rating was 3.7, without any overlap. With a fully overlapping superstation telecast, the rating declined an estimated nine percent.

Objective and Methodology

Chilton completed a total of 1,821 telephone interviews among a representative sample of cable television subscribers who were NBA viewers. Interviews were conducted in four NBA markets with varying team performance -- Atlanta, Dallas, Denver and Detroit. An NBA viewer was defined to be an individual who reportedly had viewed NBA games during the season and was involved in the decision to watch

- Among those who were aware of overlapping games (n = 797):
 - 13.8 percent reportedly only watch the local team;
 - 3.6 percent only watch the "other" superstation NBA game;
 - 5.3 percent sometimes watch only the local team, sometimes watch only the other NBA game;
 - 23.8 percent always watch parts of both games;
 - 53.4 percent sometimes watch only one, sometimes watch both games.
- As the following table illustrates, differences in anticipated behavior emerged by market, with intended viewing of the local game achieving higher levels in Detroit and lower levels in Denver:

	Atlanta	Dallas	Denver	Detroit
Typical viewing behavior when more than				

- Respondents aware of instances where two (or more) NBA games are on at the same time are heavier NBA viewers, watching two more games a month than NBA viewers in total:

	Total NBA Viewers	NBA Viewers Aware Two Games On At Same Time
Median number of games viewed/month	4.0	6.0
(n=)	(1,800)	(794)

- Although respondents aware of overlapping NBA telecasts watch more NBA games than NBA viewers in total, they watch the same number of local games on cable TV outlets (including local cable and local broadcast games) as those respondents not aware of overlapping games:

	Total NBA Viewers	NBA Viewers Aware Two Games On At Same Time
Median number of local games viewed/month	2.0	2.0
(n=)	(1,613)	(746)

- Although during the 1990-91 season an average of 31 telecasts of NBA games per month were available in the four markets, the median number of games viewed per month was only four.

SECTION IV. INDUSTRY INTERVIEWS

The following section provides a summary of the interviews of television, sports and advertising industry leaders.

Objective and Methodology

The purpose of the interviews was to elicit the views of a broad cross-section of leaders of the television industry, including national, regional and local telecasters, advertisers and sports programmers, on several aspects of the sports television mar-

The Television Market for Sports Programming

The competition for national rights to sports programming among broadcast networks, cable networks, superstations and, on occasion, regional sports networks is intense. In light of broadcast television's apparent irreversible long-term decline in audience and revenue share and cable networks' ability, unlike broadcasters, to sell advertising and subscriptions, cable networks are today considered very important bidders for national television rights.

In recent negotiations for the sale of national television rights, sports leagues have negotiated not only with CBS, NBC and ABC, but also with Fox, HBO, Showtime, ESPN, USA, TNT, Prime Network and SportsChannel America. Sports programmers also have considered selling national rights to direct broadcast satellite ("DBS") carriers such as DirecTV, TVN and SkyPix.

The competition for viewers among these and other national, regional and local sports telecasters is also substantial. In addition, superstations have emerged as significant competitors in the market for sports viewers because of the growing relative strength of cable vis-a-vis broadcast television and the valuable national sports programming that superstations now offer (e.g., packages featuring the NBA Champion Chicago Bulls and the National League Champion Atlanta Braves).

The primary viewer demographic to which sports appeals is the male 18 to 49 year old group. Telecasters are well aware of, and sensitive to, the variety of programming alternatives that exist for reaching the male 18 to 49 demographic. In addition to the number of sports television products competing for viewers in this demographic group, non-sports programming in other day parts, particularly prime

time and late night, appeal to the same young, male viewers. Accordingly, sports programmers and network executives try to schedule and shift sports programming to minimize the effects of such competition.

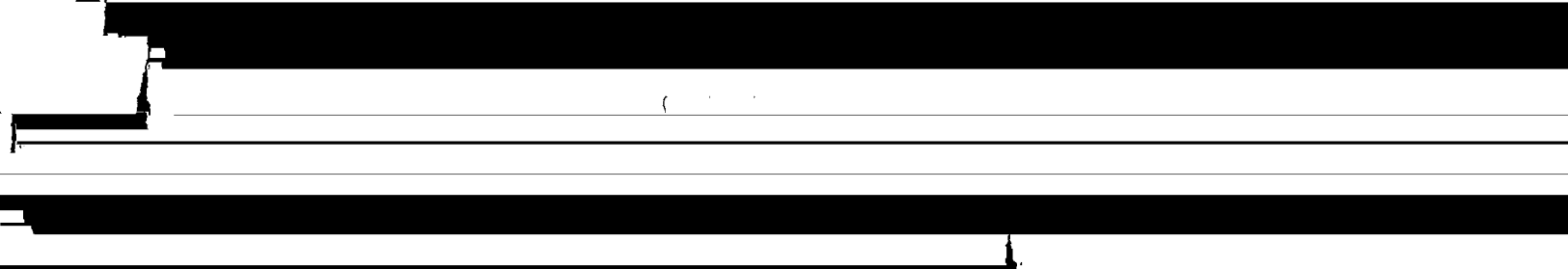
Because the amount of money advertisers budget for sports programming is essentially fixed, the competition for those advertising dollars among sports telecasters at all levels is fierce. Advertisers are forced to make difficult choices as to how best to allocate their sports advertising budgets among an increasing inventory of national, regional and local sports television products. Since advertisers no longer view any one particular sports advertising vehicle as essential, advertisers are more willing than ever to discard programming that does not perform adequately for a product that will reach the targeted demographic at an efficient cost per thousand.

Moreover, sports television programming faces competition for advertising money from other types of television programming and an array of non-television media options. As the cost differential between reaching young male viewers through prime time and sports programming continues to shrink, advertisers will view sports television products as even more closely interchangeable with other programming. In addition, over the last decade, the number and variety of non-television advertising vehicles, such as magazines, radio, signage, and event sponsorships, have increased significantly. Advertisers are taking advantage of these alternatives to television advertising, especially since television ratings continue to fall. Some non-television advertising, such as in-arena signage, also reduces the value of television advertising by enabling an advertiser's product, logo or name to be displayed on television without having to purchase advertising time from a telecaster.

The Status of, and Trends Affecting, the Current Sports Television Market

In 1975, there were no cable networks, no home satellite dish systems, no home videocassette recorders ("VCRs"), and the average television household received fewer than 10 channels. The three broadcast networks, ABC, NBC and CBS, accounted for 90 percent of television household viewing during prime time, and the sports divisions of the broadcast networks dominated the sports television market. By 1991, more than 60 percent of television households had cable, three percent had home satellite dishes, 70 percent owned VCRs, the average television household received approximately 35 channels, and the three broadcast networks' share of prime time viewing had dropped by nearly one-third. With respect to sports programming, there are now three national cable networks devoted entirely to sports programming, at least five others that televise a substantial quantity of sports programming and over 20 regional sports networks, which collectively reach virtually every cable household in the United States -- none of which existed in 1975.

As a consequence of the technological and programming advances made over the last 15 years, audiences have become increasingly fragmented and the sports television market has been inundated with additional programming inventory (e.g., expansion of NFL regular season from 14 to 18 weeks and the creation of two national cable NFL packages), new television products (e.g., the Seniors Golf Tour and World League of American Football) and an overabundance of sports advertising units. At the same time, the amount of television watched by the average American household has remained constant or decreased slightly. Thus, advertisers are finding that the cluttered sports television market is diluting their messages and causing confusion: ~~televiewers are finding that their entire ad share for all programming including~~



sports, are falling; and sports programmers are finding that the fragmented, saturated market diminishes the value of their products and is causing several sports packages to fail.

The problems of fragmentation and saturation have been exacerbated recently by the sluggish economy and the weakest sports advertising market in many years. As the economy has softened, some traditional sports advertisers, such as the major financial institutions, are beginning to consider non-sports television programming an attractive alternative to sports programming and are allocating more of their budgets to non-television advertising and promotions. Others, such as the beer and

negatively affected in the future by changes in the regulatory environment. If, for example, the network financial interest and syndication rules are relaxed, the broadcast networks may find it profitable to re-allocate money now spent on sports to the development and sale of programming for syndication.

Strategies for Competing Successfully in the Current Sports Television Market

To compete effectively in an increasingly fragmented, saturated television marketplace and to achieve maximum long run exposure and profitability, sports programmers, advertisers and telecasters try to (i) buy/sell exclusive television products, (ii) avoid creating/acquiring an oversaturated product, (iii) make each product special and unique; and (iv) maintain strict control over the television product.

Exclusivity is regarded as the "sine qua non for success" in the television market. As a matter of basic economics, a scarce or exclusive television product is more valuable than one that is abundant and not exclusive. In fact, the degree to which exclusivity can be conferred or acquired largely determines how attractive a television product will be to telecasters and advertisers, as evidenced by the performance of virtually all sports television products over the last decade.

Telecasters and advertisers want exclusive rights to a sports product in order to reduce the risks of viewer confusion, overexposure, and product dilution. Advertisers also are willing to pay a premium for an exclusive sports television product to obtain a "clear, unfettered" association with that sport and to preserve and enhance the value of their promotional efforts, signage purchases, and television "enhance-

ments" (e.g., in-game reports and scoreboards). However, meaningful exclusivity is more difficult and expensive for both telecasters and advertisers to obtain in the currently fractionalized sports television market.

In light of the negative effects caused by the saturated market, telecasters and sports programmers have begun to consider measures to insure that their products are not overexposed. Moreover, because the problems created by saturation are not limited to "head-to-head" competition between telecasts of the same sport, sports programmers recognize that the value of any particular sports telecast is affected by the volume of all sports programming -- whether televised at the same time, during the same day, or on other days of the week -- and are beginning to schedule and limit exposure accordingly.

Since advertisers value an association with a special television product, telecasters and sports programmers also endeavor to create or deliver a unique (or at least a differentiated) product to advertisers. Certain sports products, such as the Olympics, provide advertisers with the "cachet" that they desire by virtue of their scarcity. Sports that are not inherently scarce, like baseball and basketball, can increase advertiser demand for their products through careful scheduling and by providing telecasters with some degree of exclusivity.

The ability of a programmer to control and regulate the distribution and exposure of its product is regarded by all segments of the sports television industry as essential to long-term success in the fragmented, saturated marketplace. It is necessary for a programmer, especially a sports league, to control inventory in order to provide telecasters and advertisers with varying degrees of exclusivity, to strike an appropriate balance between national and local distribution of the product on broad-

cast and cable outlets, and to take advantage of developing technologies such as DBS and pay-per-view. Indeed, those sports leagues that are able to maintain control over their television products compete most successfully in the sports television market on national, regional and local levels.

Advertisers and telecasters prefer dealing with a sports programmer that carefully regulates its product because such a programmer is best able to guard against overexposure, promote the product effectively, and work with its telecast partners to minimize the effects of competition from other sports and entertainment programming.

The Impact of Superstations on the Sports Television Market

Superstation telecasts of sports programming contribute to the fragmentation and saturation of the current sports television marketplace. Because they place "uncontrolled inventory" into the national market, superstation telecasts of sports events diminish the ability of any programmer (e.g., a sports league) to provide its national, regional and local television partners with exclusivity and thus cause that programmer to be a weaker competitor in the television marketplace against other sports and entertainment products.

National, regional and local telecasters are negatively affected by superstations because superstation telecasts undermine the ability of telecasters to confer exclusivity to advertisers and cause dilution, confusion and lower ratings among viewers. As a result of the national availability of superstation telecasts of sporting events, some local and regional telecasters have elected not to purchase rights to games involving a superstation team. Other local and regional telecasters cite

superstations as the reason why they have considered dropping their sports programming altogether.

Because superstation telecasts limit the ability of advertisers to purchase exclusive rights to a sports league's television product, they make that league's programming less valuable. The existence of "uncontrolled" superstation telecasts competing against a telecaster licensed by a league or a non-superstation team prevents some advertisers (i.e., those that have dealt only with the licensed telecaster) from acquiring the degree of exclusivity they desire or force them to spend more to acquire exclusive rights to the product.

Unless authorized by a sports league, the national dissemination of a team's televised games over a superstation diminishes the ability of that league to control the distribution of its television product, provide its national, regional and local television partners with exclusive rights, promote competitive balance among its member teams, and exploit new television distribution technologies. Whether or not authorized by a sports league, superstation telecasts add inventory to the market and make the league's television product less valuable. By reducing the value of a league's television product, unauthorized superstation telecasts threaten the long-term demand for, and availability of, that league's authorized television product (e.g., excessive superstation inventory already has been credited with causing a decline in the total number of baseball telecasts available to viewers). And many believe that continued superstation carriage of a league's programming may well threaten the long-term solvency of that league or some of its teams.

The Status and Future of Major Sports Television Products

Notwithstanding efforts by sports programmers to preserve the value of their products, rights fees, on all levels and for all sports, are expected to decrease or, at best, remain flat in the future. Sports league and organizations will thus have to develop new revenue sources to compensate for the anticipated reduction in rights payments or be prepared to "scale down their operations".

Major League Baseball. Due to fragmentation and saturation, the value of baseball's television product, as reflected in ratings and advertiser interest, has dropped substantially. Its national television rights' holders, CBS and ESPN, are losing hundreds of millions of dollars on their investment. In addition, baseball's imposition of a so-called "superstation fee" has not ameliorated the damage to baseball caused by superstations because the fees charged reflect neither the true value of the superstation inventory in the national market nor the negative impact that such inventory has on baseball's CBS, ESPN and local packages. Thus, the future demand for network regular season baseball telecasts and the extent to which national networks will be willing to pay for baseball's premier events -- the All-Star Game, the League Championship Series and the World Series -- are in doubt. Long-term decreases in the number of games made available to viewers and in rights fees paid to baseball are expected.

Moreover, there appears to be very little that baseball can do to reverse the decline in the value of its television product. Proposals to introduce another round of playoffs or interleague play are not likely to help because either proposal would add even more baseball telecasts. Although baseball's product could be made more valuable (i.e., special and exclusive) by reducing the number of games telecast into the